From Farm Policy to Food Policy

The 1973 W. O. Atwater Memorial Lecture

AGRICULTURAL RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE

The W. O. Atwater Memorial Lecture was established in 1967 by the Agricultural Research Service of the U. S. Department of Agriculture to honor the memory of a gifted scientist . . . and to recognize accomplishment in a field or discipline that relates to the problems of nutrition and feeding the hungry world.

Lectures meeting these standards of achievement and capable of giving effective voice to vital environmental messages are chosen from nominations submitted to a formal selection panel established by the Department. Nominations are obtained from scientific societies and other professional associations, foundations, universities, and previous Lecturers. Each platform is selected to provide a distinguished audience, and to promote an exchange of ideas among leaders working to improve our environment. The texts of these Lectures frequently are reprinted in popular and professional publications.

Dr. Wilbur O. Atwater (1844-1907) was a man of many talents. He was a scientist, teacher, lecturer, research administrator, and writer . . . motivated always by a deep concern for improving the welfare of people through better nutrition.

Dr. Atwater established the science of modern human nutrition in the United States, and directed the first nationwide program of nutrition research, centered in the Department of Agriculture. He was the first director of

America's first agricultural experiment station at Wesleyan University, Middletown, Connecticut, and the first director of the Federal Office of Experiment Stations.

Dr. Atwater's most basic contributions to nutrition stemmed from his studies on food metabolism. He perfected, among other things, the first satisfactory calorimeter for measuring the expenditure of human energy.

His early warnings about the dangers of overeating and lack of exercise, and the need for protein for mental and physical health are being corroborated by scientists everywhere.

Dr. Atwater wrote extensively to popularize scientific information and to arouse public interest in nutrition.

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From Farm Policy to Food Policy

by Dr. Marina v. N. Whitman, Member, Council of Economic Advisors, Washington, D.C.

It seems to me particularly appropriate that this year a "regular" or garden-variety economist should be addressing an association of home economists on an occasion that honors the memory of a pioneer in the science of human nutrition. The link between home economics and nutrition has, of course, always been a close one. But the mainstream of economics has in the past been relatively little concerned with questions of food and nutrition, except perhaps in the context of economic development of poor countries.

In 1973, however, economists in rich as well as poor countries, and in the United States in particular, are finding themselves very much concerned with the production, distribution and, above all, the price of food. I should like

here to explore the links among your interests, those of Dr. Atwater, and my own, by describing briefly the forces which are propelling us along the path from farm policy, a concept born of the Great Depression, to food policy, arising from the conditions and needs of the 1970's.

Some 40 years ago, in the depths of the deepest depression this country has ever known, farmers were particularly hard hit by curtailed demand, heavily depressed prices, shrinking incomes, and a collapse of the value of their assets. In order to alleviate their difficulties, which were particularly acute even at a time of general economic suffering, programs of agricultural price and income support were introduced.

Such programs, in one form or another, have formed the backbone of farm policy in the United States ever since. And, whatever their exact form, these programs have been rooted in the belief that agriculture is somehow different from the rest of the economy and that, if left to the mercies of the marketplace, farmers would produce too much. This view implied that artificial restriction of supplies of agricultural products is essential for the support of farm prices and farm income.

In the meantime, massive migration and structural upheaval radically changed the face of American agriculture. The agricultural sector experienced broad technological change, with rapid mechanization of farming, increased agricultural productivity, reduced manpower, and a shrinking number of farms and farm families. These massive changes in the structure of the agricultural economy substantially altered the impact of the depression-based price and income support programs. At the same time, some aspects of these programs doubtless served, albeit unintentionally, to speed the pace of change, encouraging the consolidation of small family farms into larger commercial units, facilitating the replacement of

labor by various forms of capital inputs into farming, and thus hastening the movement of manpower off the farm.

With the advent of the 1970's, new dimensions have been added to the changing face of American agriculture. Fundamentally, we have moved seemingly overnight from a world of surplus to a world of scarcity. The stockpiles of the past have been replaced by domestic and foreign consumers bidding against each other for scarce agricultural commodities, and we find ourselves committed to deliver goods under surplus disposal programs when the surpluses no longer exist.

As a result, market prices of agricultural commodities are well above the government-guaranteed support levels, and farm incomes have risen by nearly 20 percent in 1972 and at about the same rate in early 1973. This increase in agricultural prosperity is also reflected in the value of farm land, which has risen more than 15 percent since 1971.

One of the results of this new agricultural prosperity has been to raise the average after-tax income of farm dwellers from 55 percent of the income of non-farm dwellers in 1960 to 83 percent in 1972. The average income of farmers is still lower than that of the population as a whole, and there are most certainly still poor farmers. But the averages hide as much as they reveal. While the net income from small farms is substantially below the national average, the net income from large farms is above that average.

At the same time, government payments under farm programs go primarily to the large-sized farms—of the $4 billion in government payments under agricultural programs in 1972, over 75 percent went to the 1 million farms with annual sales of more than $10,000, while less than 25 percent went to the remaining 2 million farms.

Thus, the farm programs raised the incomes of commercial farm producers to a far greater extent than they helped relieve

the agricultural poverty that still exists on small family farms. Nor does it seem likely that the distribution of benefits from traditional farm programs can be greatly altered, even if much more stringent limitations are placed on the amount of government payments a single farm can receive, under a provision currently receiving support in the Congress. For families operating small farms, unlike those operating larger ones, receive the bulk of their income from off-farm sources, and this fact alone is bound to limit the impact of farm programs on the income of small farmers.

The large increases in farm prices and farm incomes over the past year or so have been due to the interaction of those old "scissors" of Economics 1—supply and demand. An unusual drop in food production after 1971, caused in part by particularly adverse weather conditions, coincided with a very rapid expansion of demand for agricultural products at home and abroad.

The heavy increase in demand at home is due to the rapid growth of personal income of Americans as the economy has expanded, while the even more dramatic expansion of foreign demand is attributable to rising incomes and poor crops abroad, and to the detente in relations with the Communist countries which has made the Soviet Union and China large new customers for the output of the American farmer.

The result of this set of developments is a story too familiar to require repetition here—and unprecedented rise in the price of agricultural commodities at the farm and of food prices at the supermarket counter. It brought also an intensified government concern with the problem of rising food prices, which has been the major threat to the effectiveness of the wage-price control program and the restoration of general price stability in this country.

In the past, the primary goal of U.S. farm policy has been

the support of farm income. The most obvious way of holding down the cost to the American taxpayer of providing that support was by restricting supply. Such restriction prevented market prices from falling much below the support prices guaranteed by the government and avoided a buildup of expensive surpluses.

The food prices that resulted from the interaction of market forces with these supply management programs were not themselves a serious issue in the determination of farm policy. The needs of low income consumers for an adequate food supply were recognized by expanding food stamp programs, school lunch programs, and Public Law 480 food aid programs rather than by concern with food prices as such.

Today, however, the issue is not only the low-income consumer. There is widespread dissatisfaction and rebellion among middle-income consumers as well over the rapid rise in food prices and the difficulties it is causing for their food budgets. And we in the government have come to recognize two constraints on farm programs: the Federal budget and the consumer's food budget.

In the face of a nearly 15-percent rise in grocery prices over the past year, the problems of the consumer's food budget have reached crisis proportions in the eyes of the people who must cope with them every week. Part, but only a part, of the government's response to the problem of food price increases has been in the form of price controls. When most of the economy moved from Phase II to Phase III in January of this year, food processors, wholesalers, and retailers remained under the mandatory regulations of Phase II, with prenotification and advance approval of price increases required for large firms.

On March 29, ceilings were imposed on retail prices of red meats. Then, on June 13, the President announced a general

price freeze, including all foods. Although the present freeze exempts prices of raw agricultural products from direct control at the farm level—in part because of the enormous difficulties of enforcement at that level—they are subject to indirect but effective control from the freeze on prices of agricultural products *after* the first sale. This indirect control occurs because processors, wholesalers, and retailers, faced with rigid ceilings on the prices they can charge, are forced to limit the corresponding maximum prices they can pay to farmers if they are not to sell at a loss.

Finally, although Phase IV is still in the early stages of development, the President's commitment to stabilize the retail price of food implies that some system of mandatory controls will be maintained on the food sector once the freeze is ended.

Despite the importance of the controls program in battling the present acute phase of inflation in food prices, direct controls are far from the whole answer, and in the long run they are not the answer at all. For controls which hold prices below the levels which market conditions would otherwise generate for any sustained length of time are bound to create shortages, and thus the necessity for some means of rationing to substitute for the rationing function normally performed by prices in a free market economy such as ours.

In particular, if food producers foresee controls extending out into the future, they are likely to cut back on production plans, thus limiting rather than increasing future food supplies. This is not to say that the threat of serious shortages is very great over a period of 60 days or less; most of the decisions that will affect the supply of food during the freeze have already been made. But it could become a problem later, particularly if prices were held below market levels for an extended period after the freeze.

Under present conditions, with major food items in short supply the world over, foreign consumers are competing briskly with our own consumers for the output by American farmers. This means that if domestic prices are artificially held below world prices, producers will sell more of their output abroad as long as they are free to do so. Or, in the case of agricultural commodities such as grains and soybeans, whose prices are not themselves controlled, there is the danger that foreign demand may drive those prices up to the point where domestic producers who must buy those items for feed, and who face ceilings on the prices of the meat and poultry and eggs that they produce, are forced to operate at a loss.

It is in order to prevent this sort of situation that the President has asked the Congress for authority to impose controls on exports of grains and soybeans, should available supplies of these commodities turn out to be insufficient to satisfy both domestic needs and unrestricted exports without continuing increases in their prices.

In the short run, it may turn out that restricting exports of the key commodities I have just mentioned is essential to make the freeze workable or to stabilize food prices during Phase IV. But this course of action would be simply the lesser of two evils, and certainly not one we would want to have to rely on as an anti-inflationary weapon over the long run. It goes against much that we have been working hard to achieve: improving our balance of trade and balance of payments, stabilizing the value of the dollar in foreign exchange markets, and enabling Americans to reap the classical gains from trade by selling what we produce most efficiently at the best prices we can get.

We have worked hard to establish a reputation as a reliable source of supply and to help cement our political relationships with other nations by mutually beneficial

commercial relationships. All these goals are far more likely to be achieved if we are able to stabilize food prices to the American consumer by expanding the production of the American farmer rather than by restricting exports of our agricultural products.

Over the course of the past year, the Administration has taken a variety of other actions to increase the supply of food available to American consumers. Large amounts of land, previously withheld from production under agricultural support programs, have been returned to production. Restrictions on imports of several important food items have been loosened or suspended entirely. Export subsidies which provided artificial incentives to sell American farm products abroad have been eliminated.

Rules have been changed to permit grazing of livestock on acreage "set aside" from production. Government stocks of agricultural products have been sold off and farmers have been given strong incentives to send the stocks they own to market. And transportation bottlenecks which prevent the movement of farm output from where it is produced to where it is needed have been alleviated, if not entirely eliminated.

In short, we have done all the things we can under existing legislation to increase food supplies. But we have not been able to prevent food prices from increasing at an annual rate in the vicinity of 25 percent so far this year. We have not been able to prevent it partly because increasing food supplies takes time, more time for a steak than for a broiler or a dozen eggs, but time in any case, so that much of the results will not show up until later this year or even next year or the year after that.

Beyond that, there are serious constraints on expanding agricultural production that may be more fundamental in nature. These new constraints include tight and shrinking

supplies of farm workers in many rural areas and the higher and higher wages that must be paid to attract them. They include the unwillingness of farmers themselves to work longer and longer hours on the farm, particularly when they have attractive off-the-farm earning opportunities.

Also, the constraints include inadequate supplies of pasture and range land for the production of livestock before it moves into the feedlots. And they include growing demands from the nonfarm population to reduce agricultural pollution and minimize risks to the Nation's health associated with food production.

For the longer run, a climate conducive to increased agricultural supplies will require basic changes in agricultural legislation which take into account the massive changes which have occurred since depression days. Nineteen-seventy-three is the year of a new farm bill, and the way this bill is structured will have a great deal to do with what happens to food supplies and food prices in the years ahead.

As the President and the Secretary of Agriculture have both forcefully pointed out, the combined rise in domestic and export demand has reduced the farmer's need to rely on government payments. Net farm income reached a record high of $19.2 billion last year, of which about four-fifths was earned in the marketplace. This year farm income is likely to be substantially higher, and government payments substantially lower than last—but at the cost of a further rise in consumer food prices.

There are several routes the new farm legislation could take toward a more market-oriented agriculture, reduced dependence on government payments, and increased food supplies. But a continuation of the old-style type of support program, with emphasis on supply restriction and high or increasing government support prices will never get us there.

Such legislation would present us with an unacceptable choice between rising food prices to the consumer or a heavy burden on the taxpayer, who would have to make up the difference when market prices fell below the government-guaranteed support levels.

What we need instead is a legislative framework that will encourage the growth of farm income through increased production and sales, including expanded exports, and reduced production costs from increasing agricultural productivity.

When all is said and done, of course, farming is an uncertain business, and no legislation, however well designed, can eliminate all the uncertainties involved. The best we can do is find some reasonably sensible and equitable way of spreading the risks among the farmer, the taxpayer, the domestic consumer, and the foreign buyer. In part, this will mean getting better information about the outlook and anticipated needs of our foreign customers, so that we are never again taken by surprise to the extent that we were by the Russian grain purchases last year.

To this end, the accord signed by President Nixon and General Secretary Brezhnev, providing for an expanded exchange of agricultural information between the United States and the Soviet Union, is a welcome step. In part, it will mean finding ways to facilitate more rapid adaptation to the changing demands of the marketplace by ensuring greater flexibility in both the production and the distribution of agricultural commodities.

And, in part, it will mean continuing to provide some form of standby guarantees to the farmer against undue fluctuations in his income, so that he can expand production without fear of being wiped out financially by a sudden shift in the marketplace, however unlikely it may seem at the moment.

As always, the making of government policy involves

trying to satisfy multiple and to some extent conflicting goals. We want to maintain farm income, hold down food prices, expand agricultural exports, and minimize the cost of farm programs to the taxpayer. That is a tall order, and in filling it we are bound to have to make some compromises. But in order to fill it at all we will have to recognize that the realities of American agriculture in 1973 are very different from those of 1933, and shape our policies to take full account of these differences. Nor can we afford to ignore the impact of farm policy on the retail food counter, because we cannot afford to fail in our efforts to stabilize the rise in food prices.

We must move from a compartmentalized farm policy to an integrated food policy, not in order to pit the American farmer against the American consumer, but in order that both may share fully in the benefits of our rising prosperity.

Dr. Marina von Neumann Whitman, the 1973 Atwater Lecturer, was the first woman ever to be appointed to the President's three-member Council of Economic Advisors. The daughter of John von Neumann, world famous mathematician and colleague of Einstein, Dr. Whitman grew up in an atmosphere of intellectual challenge. She graduated from Radcliffe summa cum laude in 1956, and went on to receive her master's and Ph.D. degrees in economics from Columbia University.

She first came to Washington in 1970, on a year's leave of absence from the University of Pittsburgh where she is Professor of Economics, to serve as a senior staff economist for the Council of Economic Advisors. In the fall of 1971, President Nixon summoned her back to the capital to become a member of his Price Commission. Dr. Whitman resigned from the Commission after 4 months to succeed Dr. Paul McCracken on the advisory group that counsels Mr. Nixon on the working of the United States economy. She returned to her post at the University of Pittsburg in the fall of 1973.

Dr. Whitman resists any attempt to label her approach to economics or to identify her with broad, descriptive economic terms. She prefers the empirical approach, identifying the problem and exploring solutions within the existing set of constraints.

Dr. Whitman's major works include *Economic Goals and Policy Instruments: Policies for Internal and External Balance; International and Interregional Payment Adjustment: A Synthetic View; and Government Risk Sharing in Foreign Investment.*

Previous Lecturers and Cosponsoring Organizations

1968	Dr. Artturi I. Virtanen, Director, Biochemical Research Institute, Helsinki, Finland; Federation of American Societies for Experimental Biology, Atlantic City, N.J., April 16.
1969	Dr. Albert Szent-Gyorgyi, Director of Research, Institute for Muscle Research, Marine Biological Laboratory, Woods Hole, Mass.; The American Chemical Society, New York, N. Y., September 10.
1970	Dr. Philip Handler, President, National Academy of Sciences and Chairman, National Research Council, Washington, D.C.; The Third International Congress of Food Science and Technology, Washington, D.C., August 11.
1971	Dr. Jean Mayer, Professor of Nutrition, Harvard University; The Second National Biological Congress, Miami Beach, Fla., October 24.

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